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TO AMEMBASSY JAKARTA PRIORITY

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C O N F I D E N T I A L STATE 190978

E.O. 11652: GDS

TAGS: ENRG EFIN ID JA US

SUBJECT: INDONESIA-JAPAN LNG TRANSPORTATION

REF: STATE 189707

1. PERTAMINA-JAPANESE ATTEMPTS TO REACH CONSENSUS ON
ACCEPTABILITY OF BURMAH TANKERS AS TRANSPORTATION CONTRACTOR
USING GENERAL DYNAMICS-BUILT VESSELS, BROKE OFF INCON-
CLUSIVELY ON JULY 31. JAPANESE ARE UNWILLING ACCEPT
BURMAH TANKERS' ASSURANCES ON VESSEL AVAILABILITY AND ITS
PROPOSED FREIGHT CHARGES AND ARE TRYING TO PUSH PERTAMINA
INTO CANCELLATION OF ITS SEP 23, 1973 CONTRACT
WITH BT SUBSIDIARY BURMAST EAST SHIPPING CORPORATION,
OR AT LEAST INTO USE OF AS MANY NON-US-BUILT TANKERS AS
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POSSIBLE. PERTAMINA PREFERENCE AT THIS TIME IS STILL TO

RESIST A CONTRACT BREACH.

2. AFTER EVENTS REPORTED IN REFTTEL, PERTAMINA REP WIJARSO DELIVERED TO JAPANESE REP ITO EARLY IN MORNING OF JULY 31 A LETTER STATING PERTAMINA'S BELIEF THAT REQUIREMENTS OF PERTAMINA/JAPANESE AGREEMENTS OF JUNE 18 IN TOKYO HAD BEEN FULLY SATISFIED AND REQUESTING JAPANESE BUYERS TO JOIN PERTAMINA IN CONCLUDING REVISED TRANSPORTATION

ARRANGEMENT WITH BT. WIJARSO'S LETTER ENCLOSED TWO LETTERF FROM BURMAH TANKERS WHICH DIFFER FROM THOSE DESCRIBED PARA FOUR REFTTEL.

3. JULY 29 LETTER FROM WILSON, MANAGING DIRECTOR OF BURMAH OIL CO. LTD., TO WIJARSO STATES IN PART AS FOLLOWS: QUOTE WE WILL, IMMEDIATELY UPON ADVICE FROM YOU THAT YOUR DISCUSSIONS OF (SUBSTITUTE VESSELS) WITH OTHERS HAVE BEEN DISCONTINUED, INITIATE NEGOTIATIONS WITH APPROPRIATE PARTIES FOR ARRANGEMENTS WHICH WILL ENSURE THAT A SUITABLE LNG VESSEL IS AVAILABLE ON 1ST MARCH 1977 TO INITIATE TRANSPORTATION UNDER THE AGREEMENT. WE FURTHER UNDERTAKE THAT THESE ARRANGEMENTS WILL BE IN PLACE, ON AN UNCONDITIONAL BASIS, WITHIN 30 DAYS AFTER SUCH ADVICE FROM YOU, THAT THE SUBSTITUTE VESSEL WILL BE FURNISHED AT FREIGHT RATE PROVIDED FOR IN TRANSPORTATION AGREEMENT AS AMENDED UPON CONCLUSION OF OUR CURRENT DISCUSSIONS AND THAT ARRANGEMENTS WILL BE SUCH THAT YOU WILL BE ASSURED OF THE CONTINUING AVAILABILITY OF SUCH VESSEL UNTIL IT IS REPLACED BY ONE OF THE DEDICATED VESSELS OR ANOTHER SUBSTITUTE VESSEL ARRANGED BY US. SHOULD NEED FOR ADDITIONAL TEMPORARY SUBSTITUTE VESSELS BECOME APPARENT IN LIGHT OF CONTINUING REVIEW OF SCHEDULED DELIVERY DATES OF DEDICATED VESSELS, WE WILL MAKE SIMILAR ARRANGEMENTS FOR SUCH SUBSTITUTE VESSELS WELL IN ADVANCE OF YOUR NEED FOR THEM. WE HAVE MADE FOREGOING COMMITMENT ON ASSUMPTION THAT OUR CURRENT DISCUSSIONS OF PROPOSED MODIFICATIONS OF TRANSPORTATION AGREEMENT WILL HAVE BEEN RESOLVED TO SATISFACTION OF ALL PARTIES PRIOR TO FINALIZATION OF OUR ARRANGEMENTS FOR SUBSTITUTE VESSEL. END QUOTE.

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4. TO UNDERSTAND WILSON'S JULY 29 LETTER, IT NEEDS TO BE KNOWN THAT FOUR SHIPOWNERS MENTIONED PARA SIX STATE 182670 ARE STILL NEGOTIATING IN A LEGAL SENSE ONLY WITH PERTAMINA AND JAPANESE AND THEY HAVE NOT YET BEEN "RELEASED" TO TALK WITH BURMAH TANKERS.

5. WILSON'S JULY 30 LETTER TO WIJARSO STATES THAT "AS

A RESULT OF RECENT DISCUSSIONS WITH THE PROPOSED OWNER OF THESE (DEDICATED) VESSELS, GENERAL DYNAMICS CORPORATION, THE RECEIPT OF SUCH A (SATISFACTORY IRS) RULING IS NO LONGER A CONDITION TO THEIR EQUITY INVESTMENT IN THE VESSELS AND WE ARE THEREFORE ABLE TO REMOVE COMPLETELY FROM THE TRANSPORTATION AGREEMENT THE ABOVE CONDITION PRECEDENT." FYI: WE UNDERSTAND GD CALCULATES TOTAL COST OF SEVEN SHIPS AT DOLS 817 MILLION, OF WHICH DOLS 670 MILLION WOULD BE PUT UP BY BANKS WITH MARAD MORTGAGE INSURANCE GUARANTEES. GENERAL DYNAMICS' EQUITY

PARTICIPATION WOULD BE DOLS 147 MILLION, WHICH WOULD BE REPAID FROM BURMAH TANKERS REVENUES OVER TWENTY YEARS AT 10 PERCENT DISCOUNT RATE, OR DOLS 1.5 MILLION PER TANKER PER YEAR. END FYI.

6. ITO REPLIED TO WIJARSO BY LETTER OF JULY 31, NOTING REQUIREMENT IN JUNE 18 PERTAMINA/JAPANESE AGREEMENTS THAT BOTH PARTIES COOPERATE TO "SECURE MOST ECONOMICAL AND STABLE TRANSPORTATION ARRANGEMENT" AND FURTHER REQUIREMENT THAT IF SATISFACTORY AGREEMENT UNLIKELY TO BE REACHED WITH BURMAH TANKERS, OTHER TRANSPORTERS BE ASKED TO MAKE OFFERS. ITO MAKES POINT THAT BURMAH TANKERS' ASSURANCES ARE CONDITIONED UPON MARAD GUARANTEES, WHICH IN TURN ARE PROMISED ONLY IF MARAD ACCEPTS INFORMATION AND ASSURANCES IN GENERAL DYNAMICS' APPLICATION. HE CONTRASTS BT'S CONDITIONAL PROPOSAL WITH WHAT HE DESCRIBES AS UNCONDITIONAL OFFERS RECEIVED FROM OTHER SHIPOWNERS (WHICH LEHMAN BROTHERS OFFICER ANALYZED CRITICALLY FOR JAPANESE ON EVENING JULY 27, BUT APPARENTLY TO NO AVAIL). ITO'S LETTER ALSO REFERRED POINTEDLY TO GENERAL DYNAMICS' INABILITY TO COMPLETE A SPHERE WHEN IT COMMENTED THAT BT'S LETTER "DOES NOT ASSURE THAT DEDICATED VESSELS WILL

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BE AVAILABLE FOR TWENTY-YEAR TERM OF PROJECT". ITO CLOSED BY ASKING PERTAMINA TO PERSUADE BT TO ELIMINATE ALL CONTITIONS AND REDUCE ITS FREIGHT RATE AND TO PROVIDE CLEARER EVIDENCE THAT JUNE 18 TOKYO AGREEMENT CAN BE SATISFIED..

7. AT FINAL MEETING ON JULY 31 ITO TOLD WIJARSO JAPANESE WANT TWO TANKERS FIXED AND DEDICATED IN 1977 TO LNG TRADE FOR TWENTY YEARS BEGINNING MARCH AND AUGUST 1977 RESPECTIVELY. CLEARLY, HE SAID, THERE WILL BE NO GD-BUILT TANKERS TO FILL THESE CRITERIA. BY IMPLICATION, ITO ELIMINATED CD'S EASCO TANKERS FROM CONSIDERATION BECAUSE THEY ARE SCHEDULED FOR ALGERIA-US TRADE IN 1982. ITO LEFT OPEN POSSIBILITY OF EMPLOYMENT FOR DG-BUILT SHIPS, BUT ONLY IF THEY ARE READY WHEN EACH OF THE NEXT FIVE

TANKERS WOULD BE REQUIRED. IF THEY ARE NOT READY ON TIME, TEMPORARY SUBSTITUTE VESSELS WOULD NOT BE ACCEPTABLE TO JAPANESE, WHO WANT ALL TANKERS TO BE DEDICATED FROM START OF THEIR SERVICE.

8. WIJARSO REPORTEDLY COMMENTED THAT SINCE JAPANESE SEEMED SO DISSATISFIED WITH BT/GD ASSURANCES, THEY SHOULD WRITE HIM A LETTER RECOMMENDING THAT PERTAMINA TAKE STEPS TO BREACH ITS SEP 23, 1973 TRANSPORTATION AGREEMENT WITH BURMA EAST SHIPPING CORP AND ACCEPTING JOINT RESPONSIBILITY FOR LEGAL CONSEQUENCES. ITO

DEMURRED, SAYING PERTAMINA KNEW WHAT JAPANESE WANTED.

9. WIJARSO AND ITO THEN AGREED THEY COULD DO LITTLE MORE AND PARTED. WIJARSO HAS GONE TO TOKYO TO CONFER WITH PERTAMINA'S COL. SUDARNO, WHO IS ON A PURCHASING MISSION FOR LNG PLANTS (PARA FIVE STATE 188414).

10. WIJARSO MUSED TO PERTAMINA WASHINGTON REP BENSON THAT HE THINKS ONE OF GOJ CONCERNS, ASIDE FROM GETTING BUSINESS FOR ITS SLUMPING SHIPBUILDING INDUSTRY, IS RELATIVE UNCERTAINTY OF USG POLICY IN EAST ASIA OVER PERIOD OF TWO DECADES. CURCUMSTANCES MIGHT ARISE WHICH WOULD CAUSE USG TO CONSIDER SERIOUSLY A WITHDRAWAL OF ITS VESSELS FROM INDONESIA-JAPAN TRADE. CONVERSELY, CONFIDENTIAL

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INDONESIANS WOULD LIKE TO SEE US-FLAG VESSELS IN THIS TRADE SO THAT THERE REMAINS AN "AMERICAN PRESENCE" TO COUNTER THE JAPANESE. KISSINGER

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